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Comments for OPI testimony presented at EB-2019-0166: MPAC vs LAG pipeline assessment hearing

- The Ontario Petroleum Institute represents upstream oil and natural gas producing companies and the consultants and service companies that they use in exploring for and producing crude oil and natural gas in Ontario.
- Most producing companies are small, with most companies only operating a few wells in one or two fields. The fields usually consist of multiple wells in an area that produce from one or two geological formations, with production consisting of crude oil, brine (i.e. water containing salts), and raw natural gas. There are over 2500 active crude oil and natural gas wells in southwestern Ontario. Lagasco is the largest producing company in Ontario with over 650 wells.
- The crude oil and natural gas produced from the wells is not market-quality or saleable when produced, and needs to be treated to upgrade it to a saleable oil or natural gas product.
- Many crude oil fields produce large quantities of brine along with the crude oil and small amounts of natural gas, with the fluids flowing through the gathering pipelines often with over 90% brine along with the crude oil. This mixture of crude oil, brine, and natural gas is piped to the central battery for the oil field, where the brine is separated from the crude oil, any minor natural gas is separated from the fluids and either upgraded to sales gas-quality natural gas and delivered into an Enbridge gas transmission or distribution system or used as fuel gas in the central battery. Once the crude oil is separated from brine and natural gas and treated, it is stored in oil tanks at the battery facility, where trucks pick up the saleable crude oil and deliver it to an area refinery for additional upgrading.
- Most natural gas fields are more geographically spread-out than oil fields, with longer distances of gathering pipelines installed to transport the raw natural gas from the individual gas wells to the natural gas treatment facilities. The raw natural gas produced from the individual wells is not Enbridge-quality natural gas as it contains water vapour, possibly hydrogen sulfide, and may contain heavier hydrocarbon fractions that need to be removed from the natural gas before it is "saleable natural gas". The natural gas gathering pipelines usually operate at lower pressures, with some field gathering line pressures as low as 5 to 20 psi. A typical Enbridge distribution pipeline usually operates in the 40 to 100 psi range, while Enbridge transmission lines often operate at between 250 and 900 psi.
- Under the *Assessment Act*, a pipeline is used to transport crude oil or natural gas. There is no distinction between gathering pipelines that do not contain saleable-quality crude oil or natural gas, and Enbridge or Imperial Oil transmission or distribution pipelines that

only carry saleable-quality crude oil or natural gas. If a gathering pipeline is deemed as a "pipeline" by MPAC under the *Assessment Act*, the only factors that are used to determine the implied value for taxation purposes are the year built, material of construction, pipe diameter and depreciation. This has led to a gross overvaluation of gathering lines in Ontario.

- OPI submits that *gathering* lines move small volumes of depleting gas or oil to a treatment facility; they are not the type of pipelines the *Assessment Act* is focused on taxing, which latter pipelines transmit gas in infrastructure-type, large, high pressure transmission lines and should be taxed as such.
- Under this excessive pipeline valuation methodology, the implied value of the gathering system pipelines that are part of most oil and natural gas producing fields in Ontario is significantly more than the value of the remaining crude oil or natural gas to be produced from that field. The excessive pipeline valuation and resulting annual tax assessment results in many operators paying a large percentage of the total annual revenue from the field to the local municipality in taxation. In some instances, municipal tax assessments are in excess of 25% of gross revenue, in some cases as high as 55% of gross revenue from the crude oil or natural gas field. This business model is not sustainable.
- This unconscionable level of taxation is unsustainable for most small operators, and will result in the operator either prematurely abandoning the operating field and gathering pipelines, resulting in complete waste of the resource and total loss of the tax base for the municipality, or will result in the operator declaring bankruptcy, leaving the costs of abandonment of the wells, gathering system pipelines and serious environmental liabilities to others, either the individual landowners on whose properties the wells are located, or to the local or provincial ratepayers. None of this is an appropriate or desirable outcome, nor is it in the public interest.
- Producing operators do not have any issues with paying our fair share of taxes; we don't accept that paying between 25 and 55% of our total revenue from the area as municipal taxes is fair.
- The municipal taxation regime in Ontario is causing severe hardship to our industry, and has already contributed to the bankruptcy of several companies, most recently the second largest producer in Ontario.
- There is a real concern that wells, gathering pipelines, and central treatment facilities will be shut-in as a result of high municipal taxation rates, resulting in potential serious environmental risks to the local residents and to the province.
- OPI respectfully emphasizes to the Hearing Panel: Environmental risks associated with shutting in producing natural gas fields can be very serious (especially on unplanned events like bankruptcies), and include: (i) loss of wellbore integrity (corrosion) resulting in oil, brine, or natural gas leaks at surface or, worse, cross-flow of brine or natural gas into uphole fresh water aquifers used for drinking water for human and livestock consumption; (ii) surface leaks and spills due to leaking tanks and pipelines, abandoned treatment facilities, or unsightly derelict facilities abandoned by the operator.

- Most operators in Ontario are conscientious corporations and want to produce natural gas economically and plan to plug and abandon their wells and clean up their pipelines and facilities after the natural gas reserves are depleted. With the current municipal taxation rates, it will be nearly impossible for these production companies to survive long enough to safely plug and abandon their wells properly and facilities safely, without risks to the public.
- Lagasco is simply the largest of the crude oil and natural gas producing companies in the province, with the highest municipal tax assessed values compared to other producing companies. Lagasco is by no means the only company which has requested tax re-assessments due to excessive pipeline and facility implied valuations and resulting municipal taxes. Clearbeach Resources, TAQA North Ltd, Metalore Resources, Northern Cross Energy and others have repeatedly requested MPAC re-assessments in the past, to no avail.
- To rectify this excessive taxation, either the *Assessment Act* needs to be modified , OR, natural gas producer *gathering* lines must not be mistakenly mis-classified by the OEB as "pipelines" under Section 25 of the Act – because they are not pipelines – they are gathering lines, which are effectively connected appendages to the gas wells. Although the *Assessment Act* is not the primary jurisdictional focus of the Ontario Energy Board, part of the OEB mandate is to ensure a fair, sustainable, competitive market for Ontario residents for their energy consumption needs. The OEB can deploy its jurisdiction to make assessments of whether a gathering line is a pipeline, and OPI expects the OEB panel is capable of making that practical, realistic distinction.
- There is significant advantage to local residents and businesses and the province by using locally produced natural gas and crude oil: lower carbon emissions, local employment, local tax base, royalty payments to local, rural landowners, to name a few.
- It is respectfully imperative at this point of crisis in the industry that the OEB use its influence and inherent judgement and jurisdiction to help ensure a viable, sustainable local natural gas production industry. Natural gas will be consumed by the rate-payers in the province for the foreseeable future; there are just many more benefits for Ontarians to consume locally produced natural gas than gas which must be transported via transmission lines from hundreds to thousands of kilometers away.

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